Economy: Careful to keep their prudent reputation
By Kerin Hope
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Nikos Christodoulakis, the finance minister, says bluntly: "I don't share the Commission's view at all."

The disagreement is unusual. For first time in recent years, the European Commission has expressed serious doubts about the size of Greece's budget deficit.

The Commission's latest forecast puts the deficit at 2.4 per cent of gross domestic product, twice the finance ministry projection of 1.2 per cent. This year's budget deficit will reach 1.7 per cent of GDP, according to the Commission, against the government estimate of 1.4 per cent.

However, the finance ministry's forecast that the economy will expand next year by 4.2 per cent, on top of 4.1 per cent this year, is not disputed by the Commission. Growth would again be driven by high public investment and domestic demand.

Mr Christodoulakis pulls out a sheet of paper with the Commission's projections for 2004 revenues. He stabs a finger at the figure for Greece, which shows government income declining from 44.6 per cent to 43.4 per cent of GDP.

"This is where the problem is," he says. "In the previous budget we had a narrower incomes policy and an increase in the tax threshold. For 2004 we have bigger wage increases and the tax system stays the same. Revenues shouldn't decline."

Greek prickliness over the Commission's macroeconomic forecasting reflects concerns about maintaining credibility over fiscal policy - both with Brussels and at home. The hard-fought campaign in the late 1990s to achieve fiscal discipline and join the eurozone is considered one of the Socialist government's biggest successes. With an election six months away, the Socialists are anxious to preserve their reputation as efficient managers of the economy.

However, Mr Christodoulakis accepts spending has come under pressure. The budget includes real pay increases for civil servants and public sector workers amounting to 7.8 per cent, more than twice the projected year-end inflation rate of 3 per cent.

A five-year welfare package aimed at boosting the incomes of farmers and pensioners will cost €1.7bn next year. The government also faces a big contractors' bill for Olympic sports venues and transport systems due to be delivered by April so they can be used for test events before the games in August.

"The extra welfare spending has been meticulously costed," Mr Christodoulakis says. "There's a spike in spending on the Olympics in the first half, but it's basically on track because the outlays have been spread over three years."

Parliament is poised to approve legislation providing for budget capping by individual ministries on the basis of expertise provided by the UK treasury experts. Some measures will be applied immediately in an effort to prevent ministries from launching a pre-election spending spree.

"Essentially budget capping is about negotiating with ministries, and it will be harder this year because of the election. But it still has to be backed up with institutional reforms," Mr Christodoulakis says.

He says the government is close to achieving this year's target of €3bn in privatisation revenues. The programme called for sales of equity in state corporation to reduce Greece's public debt by 2 percentage points. By making a series of placements with international institutions through an accelerated bookbuilding process, the finance ministry has avoided overloading the small Athens stock exchange with public offerings. Almost all the offerings have been heavily oversubscribed. The biggest disposals have involved shares in Opap, the state-controlled gaming operator, National Bank of Greece and Public Power Corporation - the latter through a public offering. Three more deals are due this year.

Negotiations are at an advanced stage at Spain's Gas Natural for the sale of a 35 per cent strategic stake plus management in Depa, the state gas monopoly. A float is being prepared for Hellenic Tourism Assets, which controls state-owned hotels, marinas and coastal real estate - all to be offered on long leases to private investors.

The sale of 34 per cent of Postal Savings Bank through a public tender would complete this year's privatisation programme, the most successful to date. But at 102 per cent of GDP, the debt ratio is still the highest in the eurozone after Belgium and Italy.

With the Socialists still reluctant to loosen the state's control of utilities and other profitable corporations, the supply of equity has started to dry up. But Mr Christodoulakis says other companies may be offered for sale next year - for example the state lottery - under a target to write off another €3bn of debt.

Mr Christodoulakis sounds confident that Greece will be able to sustain the recent high growth rates after 2004. Public investment will remain at high levels as disbursements from Greece's €26bn allocation under the current EU structural package accelerate in 2005 and 2006.

Because the €4.6bn infrastructure requirement for the Olympics was financed exclusively from the public investment budget, "funds will be freed up in 2005 for other more productive investments," he says.

Some parts of the Olympic infrastructure would also attract private investors. Buildings in the athletes' village, for example, would be put up for sale shortly after the games.

The biggest question is whether the tourist industry, which accounts for almost 10 per cent of GDP, will be able to exploit Greece's higher profile with visitors once the games are over. "There's going to be a moment of truth after the Olympics. There has to be a qualitative improvement in the tourist industry and it will be up to the private sector to react," Mr Christodoulakis says. "But I'm optimistic they will."

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